

## **CALIFORNIA ECONOMIC STRATEGY PANEL**

### **AB 1532 Accountability Work Group**

#### **Summary**

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#### **Introduction**

Due to the complexity of the requirements of AB 1532, Ed Kawahara convened Technical Advisors and others who have, in the past, addressed issues in developing strategic goals and measurements of state government investments that result in economic growth. The purpose was to define issues, consider efforts in other states and provide Panel Members on the Work Group approaches to meeting the requirements of AB 1532.

#### **Proposal to Approach the Requirements of AB 1532**

Doug Henton presented the following thoughts and approach as a basis for discussion.

- The question of how state policies affect the economy is an important one but should be addressed in a way that recognizes that state spending and taxes are only a small part of the state's overall economy. Aside from education and infrastructure investments, the state government's direct spending and tax expenditures focused on economic development is relatively small. The majority of economic development activities take place at the local and regional levels through choices that are made focused on land use, housing, transportation, workforce and capital investments made by both the public and private sectors.
- In its 2002 report, *Creating A Shared California Economic Strategy: A Call to Action*, the California Economic Strategy Panel recognized that economic

development is widely distributed across many organizations and jurisdictions. The report called for a more focused strategy tailored on regional diversity. The Panel recommended economic goals with measurable outcomes including rising real per capita income, job growth, new business creation, growing private sector investment, increased minority entrepreneurship and reduced income inequality.

- A two-part approach was suggested to respond to the requirements of AB 1532 which includes: 1) developing a standard definition of economic development and standard measures for the goals based on that definition; and, 2) developing systems for measuring accountability toward those goals and determine return-on-investments for policies, programs and budgets in achieving those goals.

### **Summary of Discussion**

#### **Goals for State Economic Development Investments**

- The goal should be a rising standing of living defined by higher/rising per capita income. The State GDP is related to productivity. Jobs matter but they are distributed regionally depending on industry strengths. When there is legislation to help a specific place or business activity, is it helping the state overall? This is difficult to measure without standard goals.
- What is the impact of a state investment (money, policy, etc.) on the economy? How can a return on investment be measured? Most appropriations are small project-by-project and program-by-program investments with little impact at the State-wide level.
- If state government wants to impact the economy, change the education system. Develop a strategy to invest in creating more educational opportunities.
- Look at other models (e.g. Oregon and Indiana) to see how other states set goals, define measures, connect strategies, and calibrate every year to see if they are reaching their goals. The challenge in California is we are an economy of regions. How can the Panel break a measurement system into regions and build it back up to the state level? The Oregon model factors in regional differences.

#### **Standard Definition of Economic Development**

- A broader definition of economic development is required that includes 1) economic growth indices and job growth; 2) inequality issues; and, 3) progress such as rising per capita income.
- Much of what is called economic development is of no benefit at the community-level because locals are competing for the location/site selection of projects against each other. Much of economic development happens locally, and is intra

community movement with no extra benefit to the State. Economists do not use the term economic development.

- Doug Brown provided an overview of the history of AB 1532. There was concern about the trade programs of the Technology, Trade and Commerce Agency and no real accounting for the outcomes. However, there was never a policy discussion about what the Agency was supposed to do or the role of the State government in economic development. There was no standard definition of economic development. Some good programs were wiped out with no debate over what their value was or what is appropriate for State investments in promoting the economy.
- At the national level there is discussion on measurements and outcomes but none on a standard definition. The thinking is a definition is not needed to measure success because each community may look at it differently.
- Local economic development professionals are looking for a common set of standards that most could use with policy makers to measure success.
- The Panel can contribute by driving the process of defining the most important goals and measures that improves the economy.

#### Return on Investment Analysis

- The Legislative Analyst Office questions whether ROI can be measured (e.g. efforts to measure ROI for the Manufacturing Investment Credit). However, there needs to, at the very least, be a discussion about the impacts of tax breaks on a specific industry. What about asset building? There needs to be transparency why certain expenditures are being made and about the potential ROI. There needs to be sunset review for tax credits.
- The State has a lot of programs that affect the economy, such as workforce training, education and transportation, if you assess them through the economic development lens. They have economic impacts and they do meet the broader goals of the State. The State can articulate tax policy, workforce policy and infrastructure policy in this framework.
- The scale of investment, especially in such areas as education, training, infrastructure, R&D and tax policies and consequent scale of impact is important to define. The tendency is to evaluate programs as a matter of practicality.
- Different programs may need different evaluation methodologies. Some programs have statutory requirements. For example, the community colleges have done a lot of measurement work. This was a quasi-experimental small scale model, looking at ten different programs – a comparison of those who received

services vs. those who did not. Is this a good model for workforce training and other areas?

- What is needed to evaluate and assess the impact of an investment are 1) clear strategy and policy priorities; 2) goals and definition of criteria for core and priority investment areas, especially in large investment areas such as education, training and infrastructure; and, 3) evaluation and outcome measurements for programs, which state agencies can develop if provided a clear strategy and policy priorities.
- An example of a policy priority area is the Panel's manufacturing value chain, especially involving design and logistics. Is the state investing funds for training or infrastructure needs in this growing sector? Has this been defined as a strategic economic development investment area or policy priority?

### **Preliminary Recommendations and Next Steps**

A group of Technical Advisors will:

- Assemble and evaluate existing California indicator reports (e.g. San Diego Association of Governments, Southern California Association of Governments, Valley Vision in the Greater Sacramento Region and Joint Venture Silicon Valley) and examples from other states (especially Oregon) and identify best practices.
- Develop economic goals and systems for measuring accountability towards those goals.
- Develop a working definition of "economic development" based on the economic goals.
- Develop a method to measure return-on-investment that can be applied to policies, programs and budgets.
- Present the above to Panel Members on the AB 1532 Accountability Work Group in September for review and comments.

The AB 1532 Accountability Work Group will present preliminary results to the full Panel at the December 8, 2005 California Economic Strategy Panel meeting.